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C O N F I D E N T I A L SECTION 01 OF 02 KABUL 000343

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TAGS: [EMIN](#) [EINV](#) [ENRG](#) [PREL](#) [SENV](#) [AF](#)

SUBJECT: Ambassador Meets Minister of Mines Shahrani

REF: A. Kabul 217

[1](#)B. 09 Kabul 3574

Classified By: CDA Francis J. Ricciardone for reasons 1.4 (b) and (d).

[1](#)1. (SBU) Summary: Ambassador Eikenberry, Coordinating Director for Development and Economic Affairs Ambassador Wayne, and USAID Mission Director Frej met with recently-confirmed Minister of Mines Shahrani on January 24 to underscore Mission support for the Ministry and the Mining sector. Minister Shahrani outlined his future plans, including (1) confirmation of his intention to cancel and repackage the tender for the massive Hajigak iron ore mine (ref A) and (2) a proposed donor meeting on the mining sector after the London conference. End summary.

[1](#)2. (SBU) Ambassador Eikenberry congratulated Minister Shahrani on his recent confirmation and emphasized that mining is in the U.S. Mission's top five goals for Afghanistan's development. Shahrani acknowledged the Ambassador's congratulations on improvements he made at the Ministry of Commerce, giving credit to a number of USG-supported projects. Shahrani also thanked the group for assistance offered through the Embassy and through Deputy U/S of Defense Paul Brinkley's business task force.

Shahrani: Business-friendly and Reform-focused

[1](#)3. (U) As expected from the first Mining Minister in Afghan history with an economic and business background, Shahrani highlighted the need for "more economy after a history of engineering" at the Ministry. Shahrani highlighted management issues at the Ministry and restated his goals of transparency and deriving community benefit from the mining sector.

[1](#)4. (U) Shahrani mentioned that most of his skilled engineers received their training in the 60s and 70s, and management capacity is entirely lacking. Although he commended the World Bank capacity-building project (Sustainable Resource Development), he said it was "not enough". He noted that he had brought some of his team from the Ministry of Commerce and that Mining Ministry officials are not ready to handle basic budgeting. General administrative training is badly needed.

[1](#)5. (U) Thanking USAID for renovating the Afghan Geological Survey (AGS) building, Shahrani asked for assistance in enhancing AGS capacity. Shahrani explained that the UK Department for International Development (DFID) has agreed to second experts to the Ministry to help develop a business plan.

[1](#)6. (SBU) Part of that business plan will include removing the Ministry from the business of extraction and production. Shahrani noted that the Ministry's state-owned enterprises (SOEs) need to be corporatized and eventually privatized. He specifically cited Afghan Gas, headquartered in the Shebergan region of Jawzjan, northwestern Afghanistan, which has 2,000 employees but no production. He also mentioned the old Soviet urea fertilizer plant in Mazar-e-Sharif as a target for corporatization, commenting that the plant is suffering from an insufficient supply of Shebergan natural gas. (Note: The fertilizer plant currently operates far below its production potential and cannot compete with more efficient, newer plants in

other countries. It cannot keep up with domestic demand for urea, which is likely to increase following President Karzai's January 22 decree ban on the use of Ammonium Nitrate fertilizer, a chemical agent implicated in the majority of IED deaths in Afghanistan. End note.)

Extractive Industries Transparency Initiative (EITI)

¶7. (SBU) Citing the Afghan government's successful steps to become an Extractive Industry Transparency Initiative (EITI) candidate country in 2009, Shahrani mentioned that the World Bank, the UK, and Norway have offered to support capacity-building at the Ministry to ensure that mining contracts are transparent. A supporting secretariat has also been formed at the Ministry of Finance. Shahrani highlighted the role of the Inter-Ministerial Commission, composed of the Ministries of Commerce, Finance, Mines, and other relevant ministries, in contract oversight.

Donor Roundtable

¶8. (U) Minister Shahrani proposed his plan to host a donor roundtable bringing together Kabul-based collaborators after the London conference. Shahrani envisions participation by the US, UK, Norwegian, Canadian and other interested missions. Shahrani plans to present his top five priorities for the ministry at this roundtable, and he hopes that the gathering will lead to closer coordination among donors and the ministry. Shahrani added that he hopes to include the mining sector as an agenda item for the Kabul conference tentatively scheduled for April-May.

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Mining Sector Strategic for Afghanistan's Future

¶9. (SBU) Ambassador Eikenberry noted the value of diverse international investment in Afghanistan to ensure many actors have a stake in Afghanistan's secure and stable future. Agreeing with him, Shahrani noted that he plans to participate in the March Prospectors & Developers Association of Canada 2010 International Mining Investment show (www.pdac.ca) in Canada, where he will announce the reopened and restructured Hajigak iron tender. Shahrani hopes to stop in Washington to have meetings with key players in the US including the US Geological Survey and other interested US agencies. He welcomed the Ambassador's offer of assistance in setting up useful meetings in Washington. Shahrani envisions attracting global investment into Afghanistan, particularly in hydrocarbons (including Shebergan gas, Sar-e-Pol oil, the Kunduz basin and potential deposits in Paktika, Helmand, and Herat) as well as industrial and rare minerals.

Shahrani Heads New Ministerial "Cluster"

¶10. (SBU) Shahrani noted he is the only confirmed minister in the new "infrastructure cluster" that will be headed by his ministry. The other ministries, including Ministry of Public Works, Ministry of Commerce, Ministry of Energy and Water, Ministry of Urban Development, and Ministry of Transport, are currently headed by interim ministers, following Parliament's rejection of President Karzai's second-round appointees. Shahrani said his leadership of the cluster will help build infrastructure for increased minerals investment.

¶11. (C) Citing a cluster-related problem, Shahrani said that the Aynak copper mine contract requires Chinese company MCC to build "two rail lines" one north and one east, entailing close cooperation with the Ministry of Transportation. (Note: The version of the contract the Embassy has obtained states MCC will build one rail line -not two. Also, contacts who work closely with the Aynak project, including World Bank-funded analysts and a private MCC contractor have recently told us that MCC is trying to back out of the requirement to put in the rail line. End note.) Shahrani used the Aynak contract requirement for a 400MW powerplant as an example of

the need to coordinate with related ministries, in this case, the Ministry of Energy and Water.

Presidential and Parliamentary Face Off

¶12. (SBU) Shahrani said various parliamentarians have come to his office to congratulate him and have confided their plan for forcing President Karzai to expeditiously nominate new cabinet members to replace interim appointees. According to Shahrani, Parliament will demand new nominees and will refuse to address the budget until the nominees are submitted for parliamentary approval. Shahrani opined that President Karzai is being hampered in his nomination process by power-brokers such as Mohaqeq and Dostum.

¶13. (SBU) Comment: The Embassy had good working relations with Minister Shahrani when he was at the Commerce Ministry, and we anticipate continued close cooperation with him and his team. Shahrani's stated focus on transparency is encouraging, particularly for a "money-making" ministry such as Mines. Building on President Obama's November 30 telephone call with President Karzai in which they agreed to reinvigorate economic development and investment in mining, the Embassy has developed a mining engagement plan that will direct considerable resources toward the sector. Tax and royalty revenues from mining have the potential to make up a significant portion of the Afghan government's budget. As Minister Shahrani told us before his confirmation hearings, "Mining offers us the chance to stand on our own feet." End Comment.

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